Asia Pacific Resources Ltd.

1998 Annual Report

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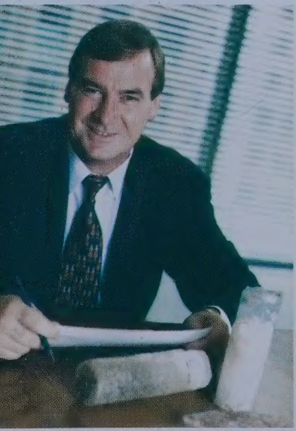
CHAIRMAN'S REPORT

Dear Shareholders:

The past year has been one of the most difficult for companies in the mining industry. The Bre-X scandal, followed by the Asian economic crises, has had a very negative impact upon the credibility of junior mining companies and their ability to finance and develop their projects.

However, I am pleased to report that, even in such difficult circumstances, your company has maintained its resolve to complete one of the most significant projects in the natural resources sector. With the signing of a Memorandum of Understanding with the Norsk Hydro group, the world's largest producer of mineral fertilizers, Asia Pacific Resources Ltd. has taken a great step towards the construction of a world-scale potash mine in northeast Thailand.

The strategic alliance with Norsk Hydro will be evident in all aspects of the proposed two million tonne per annum Somboon Mine, as well as the future development of the larger Udon deposit. It is difficult to imagine a more suitable development partner than Norsk Hydro whose strategic aims in the Asian fertilizer markets are coincident with Asia Pacific's, and whose financial and marketing strength, and technical ability, can contribute so much to the success of the project. It is contemplated that Norsk Hydro will offtake and market the total production from the Somboon Mine and become an equity participant in Asia Pacific Potash Corporation ("APPC"), holder of the potash concession.



Also, during the year, all exploration and development programs were completed as was the "bankable" feasibility study for the Somboon project. Development of project financing for the $550 million project is well advanced, and the alliance with Norsk Hydro will add positive elements to this critical area for the project.

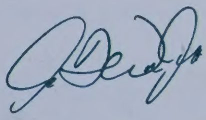
The formal licensing program for long-term Mining Licenses has commenced and the application for Board of Investment privileges, including the variety of tax and other incentives, will be filed shortly.

Another key event which recently occurred was the agreement to a private placement financing of $48 million to facilitate the purchase of the controlling interest of Metro Resources Ltd., holder of a 27.5% interest in APPC. This acquisition brings Asia Pacific Resources Ltd.'s direct and indirect interest in APPC to 90%, with the balance held by the Government of the Kingdom of Thailand. The major participant in the financing is Olympus Capital Holdings Asia, a Hong Kong based private investment fund. We welcome their participation in the Company and acknowledge their confidence in the project.

Many people have contributed to the Company's performance over the past 12 months including our technical consultants, contractors and advisors. However, I would like to acknowledge the contributions made by the management and staff of your Company who, for several years, have worked diligently to ensure the success of Asia Pacific Resources Ltd.

Your Board of Directors is fully confident in the viability of the Somboon mine, and believe that the achievements of the past year will ensure the timely development of the project. With the participation and support of the Norsk Hydro group, we look forward to completion of the project financing and the commencement of construction of what will be one of the world's largest potash mines, one which will be among the world's lowest cost producers, strategically located at the centre of Asian fertilizer demand.

I would like to thank all shareholders for their continuing support and assure them of the Board of Directors commitment to the success of your company and the Somboon project.



Gerald D. Wright
Executive Chairman

INTRODUCTION

During the past six years much has been achieved by Asia Pacific Resources Ltd. (APR) as project operator for the Udon Thani developments. In the past 12 months, the company has reached several milestones in respect of Thailand's first potash mine and has now proceeded to the project permitting stage. Completion of exploration and development programs, project feasibility studies, a $48 million financing to significantly increase the company's project ownership and the establishment of a development relationship with one of the fertilizer industry's largest and most respected companies have advanced the Somboon mine to the point of realization.

Asia Pacific Potash Corporation (APPC) is now concentrating upon the critical issues of mine permitting, environmental approvals, licencing, project financing, key staff recruitment and completion of its negotiations with the Norsk Hydro Group for their participation in the project. Also, advancement of detailed engineering design and contract preparation to permit construction of this major international project will soon commence.

APPC would like to acknowledge the assistance provided by the Department of Mineral Resources (Thailand) in the ongoing development of the Udon Thani potash project.

Increased Project Participation

APR has recently increased its direct and indirect interest in the Udon Thani Potash Concession to 90%, by acquiring an 87.5% controlling interest in Metro Resources Ltd. (MRL), a Canadian company which has a 27.5% interest in APPC. APPC holds the potash concession in northeast Thailand upon which two significant high grade potash deposits have recently been discovered. The Government of the Kingdom of Thailand maintains a 10% equity interest in APPC.

The acquisition of the interest in MRL from Metro Co. Ltd., and two of its directors, was a consequence of the difficult economic situation which has affected many Thai companies, and APR is pleased to note that the vendors have agreed to provide ongoing assistance and support to APPC in the development of the project.

Financing of Acquisition

To complete the purchase of this interest APR has now raised a total of CDN$48 million by way of a combination of convertible debentures and private placement financing. To raise such a sum in the presently depressed natural resources financial markets, particularly for a project in Asia, is a reflection of investor confidence in APPC's ability to develop a potash project in Thailand. This is further recognition of the economic consequence of constructing a large potash mine strategically located within the world's fastest growing area of fertilizer demand.

Feasibility Study

Since 1993, a series of exploration and development programs have led to the identification of two large potash ore bodies near the town of Udon Thani. A number of feasibility studies have culminated in the completion of a "bankable standard" Feasibility Study for the initial 2 million tonne per annum (mtpa) Somboon potash mine, and a

preliminary potash resource estimate has also been completed for the Udon Field. Also, a three-dimensional seismic and geotechnical program was recently completed as part of the detailed engineering program for the twin-decline access for the Somboon mine.

Kilborn Western Inc. has prepared a mine plan for the Somboon deposit, designed to recover about 65% of the presently estimated mineable reserve of 180 million tonnes of sylvinite. This reserve may be revised upward as additional exploration and development is completed during underground operations. The mine plan equates to about 23 years at an operating capacity of 2 mtpa, giving a total mine life of some 25 years, or so.

Discussions with major financing institutions indicate that a debt/equity financing ratio of 70/30 should be achievable for the project which will have an estimated capital cost of some US$495 million. Estimated cash operating costs at minesite are projected to be within the lower decile for the potash industry, as are the estimated cash costs for product loaded on a vessel at the projects' export port at the Gulf of Thailand. Coupled with the extensive tax incentives for which the project qualifies under the Thai Investment Promotion Act, the Somboon mine projects very sound economic returns.

The indicated capital and operating costs for the Somboon mine are substantially better than for any other 'greenfield' potash development worldwide.

Memorandum of Understanding

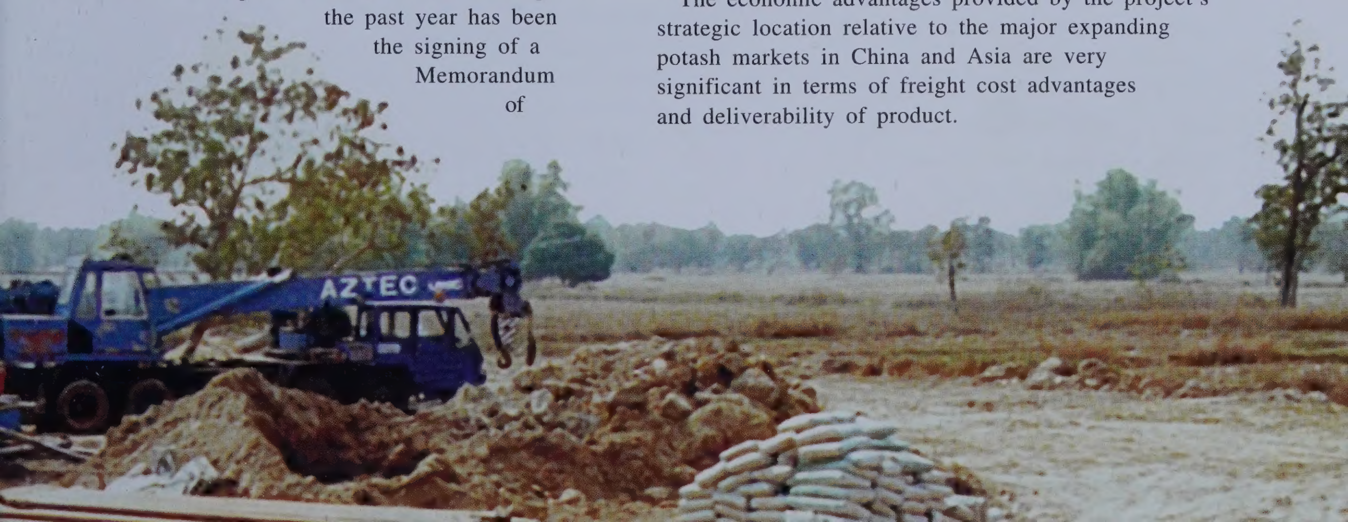
One of the most significant achievements during the past year has been the signing of a Memorandum of Understanding with Hydro Asia Pte Ltd., a wholly-owned subsidiary of Norsk Hydro ASA, of Norway. The Norsk Hydro group is the world's largest producer of mineral fertilizers, and the proposed strategic alliance between them and APPC will contribute much to the success of the project. It is contemplated that Norsk will be actively involved with APR in all significant aspects of the development, including project financing, product offtake and marketing.

Asian Potash Demand

Despite the Asian economic crisis which has affected several areas of the agricultural sector, potash exports to the region appear to be unaffected. In fact, Second Quarter earnings reported by Potash Corporation of Saskatchewan (PCS), presently the world's largest potash producer, show that potash sales to Asia remain strong in spite of the currency situation. Potash prices for large consumers, China and Brazil, were reported as being 12% higher than for the previous year, and PCS expects higher prices for Third Quarter sales.

With demand and pricing structures continuing to increase, and with the industry surplus capacity being steadily eliminated, the proposed commissioning for the Somboon mine seems very timely. Growth in the Asian potash markets is projected to continue for the foreseeable future, and this will lead to the subsequent development of the Udon potash deposit in due course. Full development of the potash resources discovered to date by APPC would ensure that Thailand will become one of the world's foremost potash producers.

The economic advantages provided by the project's strategic location relative to the major expanding potash markets in China and Asia are very significant in terms of freight cost advantages and deliverability of product.



APPC is a Thai-registered private company which holds the Udon Thani potash concession in northeast Thailand. The concession originally encompassed some 2,333 km^2. Following extensive exploration and development programs in the area, APPC has now reduced the effective area to about 850 km^2 and has applied to the Thai government for exploration licences for this area.

Until recently, the shareholders of APPC comprised Asia Pacific Resources Ltd. (62.5%), Metro Resources Ltd. (MRL) (27.5%) and the Government of the Kingdom of Thailand (10%). However, as a result of the current economic problems with the Thai economy, APR has increased its direct and indirect interest in APPC by acquiring the controlling interest in MRL. In fact, APR has now increased its interest in that company to about 95% of shares outstanding. To comply with the terms of the concession agreement which limits foreign ownership in APPC to 75%, APR has transferred a 15% interest in APPC to a Thai company, Wildemere, in which APR is a shareholder.

To purchase the MRL interest, APR has now completed a $48 million private placement financing comprising 3 million shares, at $4.00 per share, and $36 million in debentures, convertible into APR common shares at $4.00 per share. In acquiring the MRL interest, APR has increased its potential revenues by about 44%, with a possible share dilution of less than 20%, thereby significantly enhancing value for APR's shareholders.

The present structure of APPC is:

Asia Pacific Resources Ltd. (Canadian)	47.5%
Metro Resources Ltd. (Canadian)	27.5%
Wildemere Limited (Thai)	15.0%
Government of Thailand	10.0%

The project is located near the town of Udon Thani, about 500 kms from Bangkok. Udon Thani is a modern Thai town with excellent infrastructure and amenities.

M.O.U. WITH NORSK HYDRO ASIA PTE. LTD.

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In June, 1998, APR and Norsk Hydro Asia Pte. Ltd. (Hydro), a wholly owned subsidiary of the Norwegian conglomerate Norsk Hydro ASA, announced the signing of a Memorandum of Understanding (MOU) for the purpose of forming a strategic alliance for the financing and development of the Udon Thani potash concession. The parties intend to enter into an Offtake and Marketing Agreement, with Hydro becoming an equity participant in APPCorporation, and to cooperate on all management and operational aspects of the project. APPC will be developed as a fully operational production company, responsible for the mining and processing operations of the Somboon Mine, as well as the timely development of the Udon deposit.

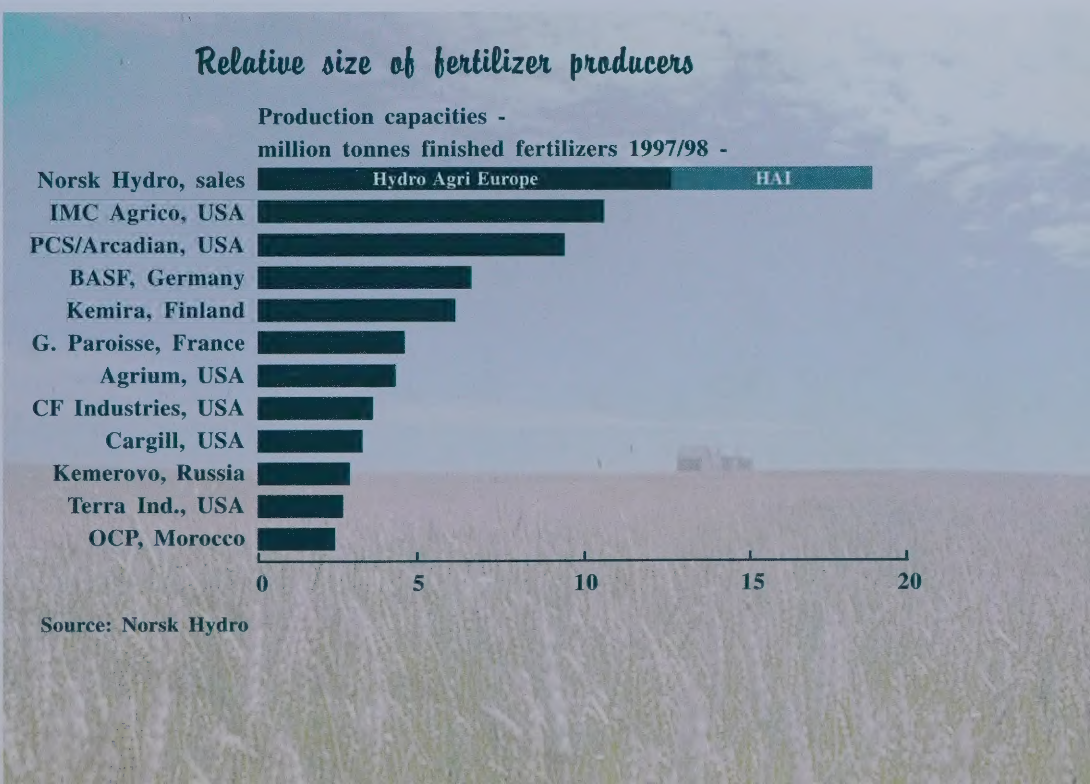
The Offtake and Marketing Agreement shall extend for the life of the Somboon Mine, estimated to be about 25 years, and will include all potash production from the mine. This Agreement is subject to APR and Hydro reaching an agreement upon the level of Hydro's equity participation and investment in APPC.

Hydro and APR will jointly develop the project debt financing for the Somboon Mine as well as the management and operational aspects including mining and process plant operations.

Norsk Hydro ASA is a leading international conglomerate with worldwide experience in the production and marketing of mineral fertilizers. Norsk was the first company to produce mineral fertilizers, and is today the world's leading producer of fertilizers. Hydro's annual worldwide sales of fertilizers is about 19 million tonnes, 12.2 million tonnes of which is produced by 17 fertilizer plants in seven European countries. Hydro currently holds a 25% market share of the European market and its Porsgrunn plant in Norway is the largest NPK facility in the world.

Hydro Agri International (HAI) is responsible for markets outside Europe, and is involved in the sales and marketing of nearly 8 million tonnes of fertilizers. HAI wishes to expand and support its worldwide system by taking a more direct role in a potash production venture.

APR is pleased to be developing a strategic partnership with the Norsk Hydro group. The technical, marketing and financial strength of the world's foremost fertilizer producer adds significantly to the development of a potash industry in Thailand, and will greatly assist APR in maximizing the production capacity of the potash resources discovered within the concession area at Udon Thani.



In 1993, APPC commenced its exploration and development programs at the Udon Thani potash concession. The first phase of exploration involved the completion of 7 drill holes totalling 2,083 meters and 43.9 line kilometers of 2-D reflection seismic in 15 lines. This was completed in the 5 month period from July to December 1993. This initial program confirmed the presence of high-grade sylvinite ore within the concession area.

Phase II began in May of the following year and an additional 55 boreholes and 89.4 line kilometers of 2-D reflection seismic were completed, primarily in the developing Somboon field. While the majority of exploration was concentrated on delineating the Somboon Field, 9 drill holes were completed north of the Somboon Field in what at the time was a reconnaissance drill program supported by favorable seismic results. This lead to the discovery of a second ore body, now called the Udon Field.

APPC then focussed upon establishing the resource potential of the Udon Field. Five drill rigs of various configuration were employed on this program which included the completion of reserve definition drilling on the Somboon Field, as well as the delineation of the Udon Field. A total of 40 holes were completed at the Udon Field, and APPC also completed 188 line kilometers of 2-D reflection seismic to assist drill location planning and define the subsurface structure throughout the areas under evaluation.

Feasibility studies for the Somboon Mine commenced in May 1996 with the initiation of a hydrogeological drill program designed to evaluate any possible subsurface acquifers or the presence of water problems along lithologic boundaries. A series of wells, drilled 200 meters apart, failed to show connectivity thereby demonstrating that water inflow to mine workings should not occur. Although local people, in some areas, can obtain water for domestic consumption down to about 30 meters below surface, the underlying lithologies form a series of effective aquacludes and prevent downward migration of this water.

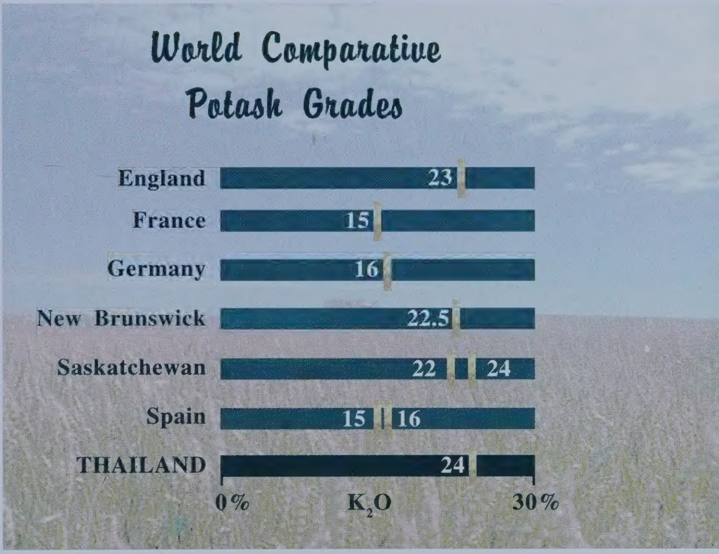
Concurrent with the Somboon Feasibility program, exploration continued with in–fill reserve definition drilling on the Udon field together with 198 line kilometers of seismic, in 74 lines. Of 59 holes drilled in this program, which continued to late May 1997, 43 boreholes completed the reserve definition of the Udon Field; 2 boreholes extended the northern margin of the Somboon Field; and 12 holes were completed elsewhere on the concession as part of a broad reaching reconnaissance program. This 12 hole program did not identify additional sylvinite resources within the area drilled

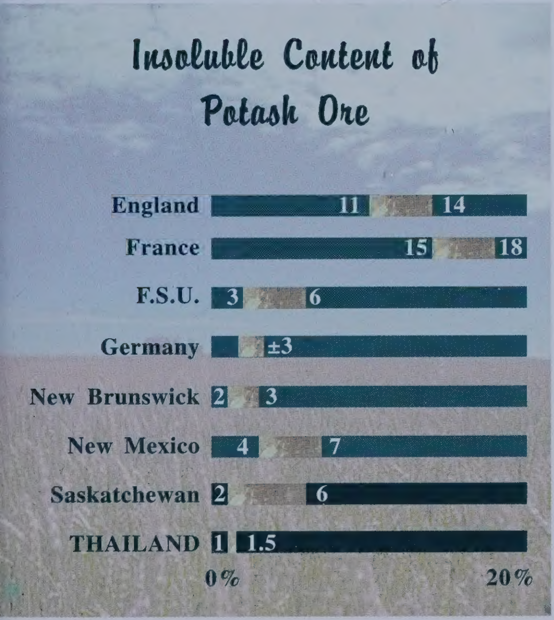
While standard diamond drill cores readily demonstrated the high quality nature of the deposits, larger (100 and 200 mm) cores were recovered for bulk sample tests performed at Lakefield Research Ltd., in Ontario. The results of these tests demonstrated that the sylvinite ore can readily be processed using conventional floatation methods.

Finally, in late 1997, additional exploration holes were drilled to examine the possibility of establishing a connection between the Somboon sylvinite field and the Udon sylvinite field. It is now clear that each field is discrete.

The total estimated mineral resource for the Somboon field is over 300 million tonnes, and a preliminary resource estimate of over 900 million tonnes has been estimated for the Udon Field.

The depth to the deposits is generally between 300m and 350m, and the estimated mining grade for the ore is one of the highest in the potash industry. The ore is clean and easily processable using conventional technology, and high mill recoveries are expected.





FEASIBILITY STUDY

The feasibility study commissioned by the Company in February 1998 was completed by Kilborn Western Inc. (Kilborn), in cooperation with Golder Associates Ltd., at the end of June. The objective was to confirm certain design changes, from the previous H.A. Simons feasibility studies, proposed by Kilborn and to estimate all capital and operating costs for the mine, mill and other on-site surface facilities to an accuracy of ±15%. To satisfy the due diligence requirements, Kilborn conducted a quality assurance and control program which included monitoring the drilling of three geotechnical wells, core handling and logging, downhole logging and the sampling procedures. Kilborn also undertook sampling, assaying and the independent development of a geological resource model to confirm the potash resource and it's mineability. Additional metallurgical testwork was done to confirm the mill process design.

The most important design changes proposed by Kilborn in their initial project review, and confirmed by the feasibility study, include:

- The use of twin declines to access the orebody rather than vertical shafts. Because of the shallow depth, the Somboon orebody declines will allow easier, more reliable operations. Golder Associates geotechnical analysis confirmed the suitability of the route and provided additional information for use in preliminary design and costing of the declines.
- The use of an "advance-retreat" mining plan from the center of the orebody, which allows faster access to the thicker, higher-grade areas of the mining reserve and minimizes preproduction development costs.
- Surface storage of tailings produced during the first five years of operations. This will reduce the initial demands on the operating crews and help ensure a smooth and efficient start-up. After this period, tailings will be placed underground.
- Certain modifications to the mill flow sheet to take advantage of on-site water supply and ensure the forecast mill recovery of 90%.
- Optimal use of the domestic labour force by using a development period to train local workers in the required skills.

Kilborn's mandate also included detailed studies of the local and regional geology, including construction of model cross sections, review of ground survey accuracy, and independent review of the 2D-seismic survey interpretation. Finally, a resource and reserve estimate was determined by applying practical mining constraints based on the "Ad Hoc Committee Report, Mineral Resource/ Reserve Classification: Categories, Definitions, and Guidelines", CIM Bulletin, September 1996. All data was incorporated into a computer-based model to generate an estimated resource inventory of 300 million tonnes at an average grade of 21.7% K_2O and an extractable reserve inventory of 180 million tonnes at an average grade of 23.6% K_2O, and average magnesium content of 0.19% Mg. This is sufficient for 23 years at the design production rate of two million tonnes of KC1 product per annum.

During the first quarter 1998, a 3D seismic survey covering 2.5 km^2 was conducted over the projected twin ramp decline area. Survey results indicated no anomalous structure, and good homogeneity and continuity of all stratigraphic sequences. Three geotechnical boreholes were also drilled in strategic locations along the length of the ramp. The boreholes provided additional confidence pertaining to geological conditions. Golder Associates was contracted to supervise and conduct additional technical studies in relation to hydrogeological properties of the shallow aquifers, core logging and sampling, laboratory rock strength tests and ramp design.

Golder Associates also conducted additional FLAC modeling for engineering mechanics computation and analysis for maximum flexibility of entry and room and pillar design, and backfill requirements for the maximum extraction ratio. FLAC modeling was also used to predict convergence for the mine that has been assessed as having negligible effect on overburden, general land use and surface infrastructure.

To complement the study, a 10.5 km 2D-seismic survey program was conducted outside and adjacent to the Somboon resource boundary. The survey data will assist in locating a final brine disposal site to satisfy the project's environmental, regulatory and mine design requirements.

Initial capital costs, sustaining capital and operating costs were estimated to an accuracy of ±15%; a level considered suitable for basing major development and financing decisions. All costs are based on first quarter 1998 price levels. Estimated on-site preproduction capital costs are US$456 million. Additionally, sustaining capital costs which are expected to be incurred over the life of the mine have been reduced, from $170 million to $140 million, partly because some expenditures which have been advanced to the pre-production period are now included in the estimated pre-production capital costs. The average life of mine on-site operating cost is estimated at US$29.80 per tonne, which is among the lowest costs in the potash industry.

APPC intends to release the project for detailed engineering and construction by January, 1999, with initial production expected early in the first quarter of 2002 and production at full capacity by 2003.

Concurrent with the completion of the Kilborn study, Sandwell(International Rail Consultants) was asked to update their port and transportation study to ensure that it conformed to the final Kilborn design. This review has been completed and confirms, with only minor modifications, the results of the Sandwell 1997 study. Similarly Kilborn, Golder Associates and TEAM Consultants were asked to update the Environmental Impact Assessment. This update is nearing completion and when finalized will form the basis of the Company's submission to the Government of Thailand as a part of the permitting process. Input from the three studies is now being used to update the comprehensive economic and financial assessment of the project.

Development and construction of the project will take approximately three years. Although it is expected that the prime contractor will be an off-shore organization, local contractors, particularly for civil work, are readily available. During this period the on-site construction workforce will peak at about 1,000. A small number of these employees will be expatriates and the balance Thai nationals, predominantly from the Udon Thani area.

It is intended that the company's subsidiary, Asia Pacific Potash Corporation, be developed as a stand-alone production company. Recruitment and training of the operating team will begin during the construction period. The total on-site manpower requirements, excluding corporate management, and marketing and shipping personnel, are estimated at about 770. It is anticipated that most of this workforce will come from the Udon Thani area. Extensive training in certain specific skills will be required and has been provided for in the company's development plan.

PROPOSED SOMBOON MINE

MINING AND PROCESSING

Access to the orebody will be by twin declines of about 2.7 km in length, 4.5 meters high, 6.0 meters wide and driven at a gradient of minus 13 degrees to the horizontal. These declines will be used for transportation of both ore and waste, ventilation and access to the mine by the workforce. An underground service area will be created in the middle salt horizon, and this will be used for servicing and maintaining all underground equipment.

From the main underground haulage ways a number of mining areas will be developed using a chevron room and pillar technique. When the mine is operating at full capacity a total of ten continuous miners will cut the ore from the mining faces. Panels will be mined in a retreat fashion with extraction ratio of 64 to 70 percent. Grade control will be a critical part of mine management to minimize dilution. Ore will be transported by a series of conveyor belts to the declines and then up the declines to a surface storage bin with a 10,000 tonne capacity. Between 5.5 and 6.0 million tonnes of ore will be delivered to the mill each year. The mine plan uses conventional methods and well proven equipment.

The mill design has been based on the results of extensive metallurgical testing which has shown the ore to be low in insolubles and magnesium and amenable to conventional floatation processes. The mill also uses conventional and well proven potash industry technology and processing equipment.

Design recovery for the mill is estimated at 90 percent with a typical product grade of 60.5% K_2O

The first processing step is to crush the ore to less than 1.2 mm. A de-sliming circuit to remove very fine insoluble particles is followed by floatation which separates the potash particles from the waste, which is essentially salt mixed with a small quantity of insoluble material such as clay. Further leaching with fresh water upgrades the potassium content of the product which is then centrifuged, dried and screened to produce two products, Standard and Fine, which are differentiated by their particle size distribution.

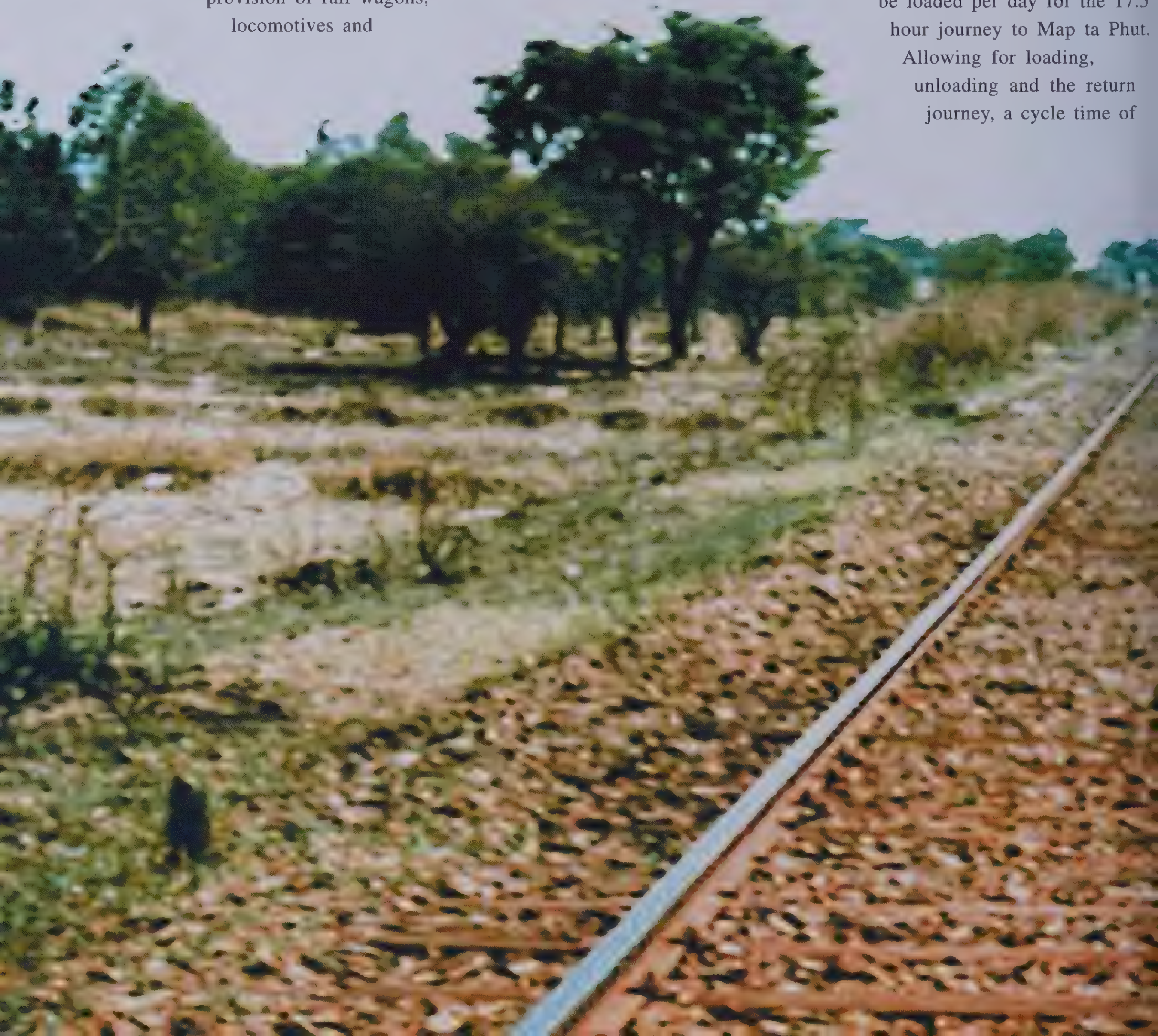
An evaporator/crystallizer circuit is used to recover additional, higher or industrial grade "white' potash which can be blended with the product from floatation or, if markets warrant, can be sold as a separate premium priced product. Annual production will be divided about equally between Standard and Fine, assuming no "white potash" is sold initially. The specifications for both products have been set to meet, or exceed, industry standards.

Approximately 0.2 million tonnes per annum of 99% pure salt will also be produced and sold primarily to the domestic chemical industry. On-site storage capacity for 180,000 tonnes potash and 30,000 tonnes salt, as well as rail and truck loading facilities are included in the design.

Rail

The Sandwell report concluded that the State Railway of Thailand (SRT) rail system is adequate for the transportation of APPC's potash from the mine at Udon Thani to the ports, either Map ta Phut or Laem Chabang. However, because of the specific requirements for bulk transport of potash, dedicated potash wagons will be required. To ensure that the required transportation service levels can be achieved, APPC has included the provision of rail wagons, locomotives and maintenance facilities within its scope of the project. APPC is presently exploring options for the lease of locomotives and wagons and will receive a discount from quoted SRT freight tariffs should the company provide the required equipment.

With the Somboon Mine in full production, APPC would become the third largest bulk rail transport user, behind petroleum and cement products. Approximately 4 trains consisting of a 3,000 HP locomotive and 30 potash wagons will be loaded per day for the 17.5 hour journey to Map ta Phut. Allowing for loading, unloading and the return journey, a cycle time of



45 hours is expected. Thus 7 complete trainsets will be operated continuously, and to allow for maintenance, a further 2 locomotives and 32 wagons will be required for a total of 9 locomotives and 242 wagons.

SRT is currently studying entering into a full maintenance lease of 100 locomotives for the use of its customers which could reduce the capital and operating costs assumed by APPC to date. In addition, APPC has identified a number of potential facilities where APPC's rolling stock could be maintained thereby further reducing capital costs. APPC has also identified various system improvements which would improve the operations and reduce the costs of rail transport. These factors will be included in the negotiations with SRT for the rail transportation of potash.

Port

APPC has identified a number of suitable locations for a potash export terminal, of which three have been shortlisted, two being at Map ta Phut and one at Laem Chabang.

The Map ta Phut Phase II extension was selected as the base case for the feasibility study, primarily because it is a government development and some 38 sites will be available. Construction of this

facility is well underway and does not appear to be affected by the current economic situation in Thailand. APPC has also been approached by a number of terminal site lease holders to locate APPC's export facilities on their leased sites.

At Laem Chabang, the Port Authority of Thailand recently solicited new bids for the A3 terminal site. While five parties expressed interest in this site, APPC was the only company which submitted a bid, which is currently under review by the Port Authority.

The A3 site at Laem Chabang has a number of advantages including a reduction in cycle times and thus operating costs because of the 60 km shorter distance, sufficient land and berth space for APPC's future expansion, and a 30 year lease term with two 10 year extensions. APPC plans to select the project terminal site following a formal response to its A3 proposal from the Port Authority of Thailand.

In developing design parameters the company's engineers have followed the general mining guidelines suggested by the World Bank and all relevant specific requirements of Thailand. Where specific regulations have not been identified "best industry practice", which generally reflects North American regulations, has been adopted.

The major environmental issue relates to the control and disposal of waste products from the mine. Waste from the process is of two types. Initially solid tailings, which are essentially salt, will be conveyed to a on-site tailings pile. Once the mine is substantially developed and running at capacity a new tailings disposal system will convey tailings back underground where they will be stored in mined out areas. This system will have several advantages. It will reduce the prospect for any environmental problems and will provide ground support to maximize the safe extraction of ore, particularly in areas where the ore is of above average thickness, while minimizing any surface subsidence.

Excess brine, which is also a waste product, will be disposed of by pumping down a well to a deep geological formation where it will remain without causing any impact to either the mine or the surrounding sources of fresh water.

Waste disposal facilities are designed to prevent negative impacts to the environment. Equally important are the monitoring systems and operating practices which ensure their success and which the company has incorporated into its production plan.

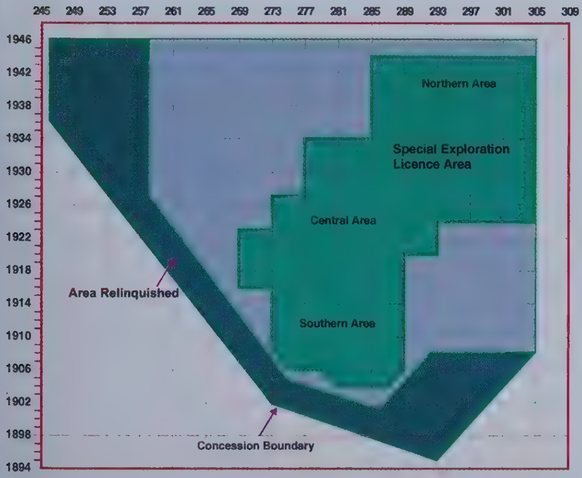
The potential impacts upon the environment during construction and operation of the mine and mill have been fully evaluated and great care has been exercised to prevent any deterioration of the environment. Social and economic issues have also been evaluated and APPC intends to ensure the maximization of those benefits accruing from the project for the local populace.

Upon completion of a survey of the local populace, APPC will file the required documents in support of its application for environmental permits for the project.

Permitting

APPC has, in fulfillment of the Concession Agreement requirements, submitted applications for "Special Prospecting Licenses" for exploration rights for an area of approximately 850 km^2 for a further three years, renewable thereafter for a further two years. This area, which is a reduction from the 1,730 km^2 previously held, includes the Somboon and Udon fields and the remaining areas in the Concession Area with potential for additional potash resources. Such application is a preliminary step in securing longterm tenure for the project.

With the completion of the Feasibility Study and confirmation of the overall configuration of the mine, surface facilities and operating plans, APPC is now in position to complete the activities required to finalize the applications for Mining Licenses, Board of Investment priviliges and environmental permits.



Exploration Licence application area
Scale 1 : 400,000

Mining Licences

Mining Licences in Thailand are issued for a primary term of 25 years, with provision for extensions beyond this period.

Board of Investment (BOI)

The Government of the Kingdom of Thailand, through the Board of Investment (BOI), offers incentive packages to encourage development within Thailand.

The BOI promotes projects which:

- Strengthen Thailand's industrial and technological capacibilty;
- Use domestic resources;
- Create employment opportunities;
- Develop basic and support industries;
- Earn foreign exchange;
- Contribute to the economic growth of regions outside Bangkok.

APPC's project is located in northeast Thailand, in Investment Promotion Zone 3, and is expected to receive the following additional incentives:

- Government guarantees;
- Exemption of import duty on machinery;
- Corporate income tax exemption for 8 years;
- Reduction of corporate income tax by 50% for 5 years after the initial 8 year exemption period;
- Exemption of import duty on raw or essential materials used in export products for a period of 5 years for projects;
- Double deduction from taxable income of water, electricity, and transport costs for 10 years from the date of first sales;
- Deduction from net profit of 25% of the costs of infrastructure facilities.

Land Acquisition

APPC has made significant progress in acquiring surface rights to land required for the surface facilities. Most of the land is privately held, and is either unused or presently utilized for rice or sugarcane farming.

Overall, approximately 2 km^2 is required for all surface facilities including roads, railway facilities, tailings and water/brine storage. Approximately 40% of the required land has been acquired including the critical locations for the decline portal, mill buildings, storage facilities and rail loadout.

The remaining land for brine ponds, water storage and tailings is less critical because of the flexibility in locating these facilities, and will be acquired over the next several months.

In addition to the on-site capital costs, estimated by Kilborn at US$456 million, the project includes a railcar maintenance facility and a shipping terminal to be located at an existing port on the Gulf of Thailand. The direct capital cost of these facilities has been estimated by Sandwell at US$43 million. Therefore the total capital cost of the project is US$499 million; or about US$250 per annual product tonne, a figure which the company believes cannot be equaled by any other potential greenfield site. Including allowances for owners costs, working capital and interest during the construction period, the total required investment will be almost US $600 million. Sustaining capital requirements over the life of the mine are estimated at US$140 million.

The estimated life-of-mine cash operating costs at the minesite, including G and A costs and a 10% contingency, is $29.80 per tonne. This is among the lowest cost in the potash industry.

The unit cost of production, rail transportation and ship loading is estimated at less than $45 per tonne. By industry standards this cost is extremely competitive and should help ensure a strong equity cash flow, even in times of relatively low potash selling prices.

Economic modelling, using the capital, sustaining and operating costs from the Feasibility Study demonstrate the excellent economic potential for the mine. A base case model, was developed, using a 70/30 debt to equity ratio and a F.O.B. export port potash price for southeast Asian deliveries of US$135.00 per tonne, and this indicates a net present value for the project of over US$550 million (at an 8% discount factor), and a return on equity of over 26%. It should be noted that this base case economic analysis assumes a payback of the debt financing within eight years of commissioning of the mine. The analysis does not include the prospect of subordinated project debt or optimization of the extensive tax incentives the project attracts as a "promoted project" in Thailand. Consideration of these aspects would enhance the projected economics for the mine.

During 1997 world-wide production of potash increased by 9.4% to a total of about 42.3 million product tonnes. Deliveries increased even more dramatically by 16.2% to a total of 43.5 million tonnes. Of the total world production, some 80%, or 33.8 million tonnes was exported, demonstrating once again the global nature of the industry and the need to be competitive on an international basis. Deliveries to Asia and Oceania markets accounted for 34% of international trade or 11.7 million tonnes. Within this region the biggest consumers were China (4.3 million tonnes), India (2.3 million tonnes) and Malaysia (1.1 million tonnes). Deliveries in each of these markets were substantially higher than 1996 levels.

The severe economic problems now being experienced in Asia, combined with the destabilizing impact of El Nino on crop production, may have a short-term negative impact on the ability of some of the region's farmers to purchase imported fertilizers. However regional governments, most notably that of Thailand, have moved quickly to support their agricultural industries as a major part of their efforts to regain economic health. Indonesia, faced with perhaps the most difficult problems, imported some 0.6 million tonnes.

Within Thailand, fertilizer manufacturers continued to increase their capacity to produce compound NPK fertilizers. By the end of 1998 the three largest producers will have an aggregate capacity of 2.6 million tonnes per annum. These developments will have a strong positive impact on the local demand for potash.

Existing potash producers generally enjoyed a profitable year. Reported prices for Standard Grade potash F.O.B. Vancouver, Canada, increased during the year to reach approximately US$120 per tonne. When ocean freight and handling costs are taken into account, this suggests delivered prices in excess of US$135 per tonne in the Asian region.

A sudden and unexpected closure of the 1.2 million tonne capacity Potacan mine in New Brunswick, Canada, contributed to a tightening of supply. No new greenfield projects were announced during the year, although a number of minor expansions to existing facilities are proposed. Other than the Somboon mine, no other new mines are expected to reach production within the next five years.

Industry forecasters continue to expect regional demand growth rates in excess of 5% per annum. This would increase consumption to some 15 million tonnes in the year 2002. However, it should be noted that this growth will not necessarily be steady and consistent on an annual basis. As the supply demand balance tightens some real term price increases are expected.

To the Shareholders of
Asia Pacific Resources Ltd.

We have audited the consolidated balance sheets of Asia Pacific Resources Ltd. as at February 28, 1998 and 1997 and the consolidated statements of loss and deficit and changes in financial position for each of the years in the three year period ended February 28, 1998 and the period from inception, January 26, 1986, to February 28, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended February 28, 1998 and the period from inception, January 26, 1986, to February 28, 1998 in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche

Chartered Accountants
Vancouver, British Columbia
May 8, 1998 (except for Note 16, for which the date is June 22, 1998)

Consolidated Balance Sheets

February 28, 1998 and February 28, 1997
(expressed in Canadian dollars)

		1998	1997
ASSETS			
CURRENT			
Cash		**$ 13,806,755**	$ 26,818,076
Accounts receivable		**584,514**	923,173
Prepaid expenses		**111,928**	82,443
Due from affiliated companies		**623,261**	494,008
Other current assets		**28,884**	20,366
		15,155,342	28,338,066
CAPITAL ASSETS	(Note 3)	**250,772**	302,531
INVESTMENT IN METRO RESOURCES LTD. (market value: $1,392,050)	(Note 4)	**1,418,575**	-
INVESTMENT IN LAND		**2,822,236**	-
INVESTMENT IN POTASH CONCESSION	(Note 5)	**17,300,820**	11,911,416
		$ 36,947,745	$ 40,552,013
LIABILITIES			
CURRENT			
Accounts payable and accrued charges		**$ 557,174**	$ 1,154,024
Other current liabilities		**43,045**	23,507
		600,219	1,177,531
SHAREHOLDERS' EQUITY			
Share capital	(Note 7)	**52,751,126**	52,491,776
Deficit		**(16,403,600)**	(13,117,294)
		36,347,526	39,374,482
		$ 36,947,745	$ 40,552,013

APPROVED BY THE BOARD

Peter D. Barnes
Director

John M. Darch
Director

Consolidated Statements of Loss and Deficit

(expressed in Canadian dollars)

	Cumulative from inception to February 28 1998	**Year Ended February 28 1998**	Year Ended February 28 1997	Year Ended February 29 1996
INTEREST AND OTHER INCOME	$ 2,855,348	**$ 774,385**	$ 1,079,703	$ 797,420
EXPENSES				
Accounting and legal	547,325	**176,511**	56,245	110,880
Amortization	176,358	**83,109**	42,755	8,548
Consulting	1,205,349	**547,135**	166,840	283,774
Financing costs	223,305	**-**	-	223,305
Interest and bank charges	146,536	**1,288**	1,272	9,160
Office and miscellaneous	1,264,830	**272,732**	423,214	175,010
Promotion and travel	1,680,348	**732,617**	310,717	235,516
Rent	334,940	**98,541**	79,683	30,886
Salaries	2,908,808	**822,203**	701,312	356,723
Transfer fees and filing fees	388,729	**51,496**	119,413	102,924
	8,876,528	**2,785,632**	1,901,451	1,536,726
LOSS BEFORE THE UNDERNOTED	(6,021,180)	**(2,011,247)**	(821,748)	(739,306)
FOREIGN EXCHANGE LOSS	(1,394,401)	**(1,165,688)**	(228,713)	-
LOSS ON SALE OF INVESTMENTS	(1,806,532)	**-**	-	(2,045,402)
WRITE-DOWN OF INVESTMENTS	(4,380,918)	**-**	-	-
WRITE –OFF OF INTEREST IN MINERAL CLAIMS	(715,920)	**-**	-	-
SHARE OF NET LOSS ON EQUITY INVESTMENT	(701,190)	**-**	-	-
LOSS BEFORE INCOME TAXES	(15,020,141)	**(3,176,935)**	(1,050,461)	(2,784,708)
CURRENT TAX RECOVERY (EXPENSE)	791,342	**(109,371)**	(89,737)	608,415
NET LOSS FOR THE PERIOD	(14,228,799)	**(3,286,306)**	(1,140,198)	(2,176,293)
DEFICIT, BEGINNING OF PERIOD	-	**(13,117,294)**	(11,977,096)	(9,800,803)
DIVIDEND IN KIND (Note 13)	(2,174,801)	**-**	-	-
DEFICIT, END OF PERIOD	$ (16,403,600)	**$ (16,403,600)**	$ (13,117,294)	$ (11,977,096)
LOSS PER SHARE		**$ (0.07)**	$ (0.02)	$ (0.05)

(expressed in Canadian dollars)

		Cumulative from Inception to February 28 1998	**Year ended February 28 1998**	Year ended February 28 1997	Year ended February 29 1996
OPERATING ACTIVITIES					
Net loss for the period		$ (14,228,799)	**$ (3,286,306)**	$ (1,140,198)	$ (2,176,293)
Items not involving cash					
Amortization		176,358	**83,109**	42,755	8,548
Loss on sale of investments		1,806,532	**-**	-	2,045,402
Write-down of investments		4,380,918	-	-	-
Write-off of interest in mineral claims		715,920	-	-	-
Share of net loss on equity investment		701,190	-	-	-
		(6,447,881)	**(3,203,197)**	(1,097,443)	(122,343)
Change in non-cash operating working capital items		(748,368)	**(405,909)**	(200,910)	(502,993)
		(7,196,249)	**(3,609,106)**	(1,298,353)	(625,336)
FINANCING ACTIVITIES					
Issue of share capital		52,751,126	**259,350**	10,023,430	24,788,545
Dividend in kind	(Note 13)	(2,174,801)	**-**	-	-
		50,576,325	**259,350**	10,023,430	24,788,545
INVESTNG ACTIVITIES					
Purchase of capital assets		(432,498)	**(36,718)**	(307,129)	(16,305)
Net proceeds on sale of assets		5,368	**5,368**	-	-
Investment in Metro Resources Ltd.		(1,418,575)	**(1,418,575)**	-	-
Investment in land		(2,822,236)	**(2,822,236)**	-	-
Investment in potash concession		(17,300,820)	**(5,389,404)**	(4,746,684)	(2,358,875)
Purchase of investments		(12,077,910)	**-**	-	(1,868,085)
Proceeds on sale of investments		3,880,897	**-**	-	977,181
Disposal of investment through dividend in kind	(Note13)	1,308,373	**-**	-	-
Mineral claims expenditures		(715,920)	**-**	-	-
		(29,573,321)	**(9,661,565)**	(5,053,813)	(3,266,084)
NET CASH INFLOW (OUTFLOW)		13,806,755	**(13,011,321)**	3,671,264	20,897,125
CASH POSITION, BEGINNING OF PERIOD		-	**26,818,076**	23,146,812	2,249,687
CASH POSITION, END OF PERIOD		$ 13,806,755	**$ 13,806,755**	$ 26,818,076	$ 23,146,812

1. Nature of Operations

The Company, incorporated on January 26, 1986, is a development stage enterprise in the process of financing certain exploration and development expenditures with respect to its potash concession in northeastern Thailand (Note 5). The recoverability of the Company's expenditures on the potash concession is dependent upon the ability of the Company to obtain necessary financing to complete the development, future profitable production or proceeds from the disposition thereof.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the case of the Company, Canadian GAAP conforms, in all material respects, with accounting principles generally accepted in the United States of America ("US GAAP") except as outlined in Note 15. Specific policies are as follows:

(a) Long-term investments

(i) Investment in Metro Resources Ltd.

The Company's investment in Metro Resources Ltd. ("Metro") is carried at cost. If there is a decline in value that is other than temporary, this investment will be written down to estimated net realizable value.

(ii) Investment in Asia Pacific Potash Corporation

The Company accounts for its 62.5% investment in Asia Pacific Potash Corporation ("APPC") using the proportionate consolidation method on the basis that it exercises joint control over the affairs of APPC. Under this method the Company's pro rata share of each of the assets, liabilities, revenues and expenses of APPC are combined on a line-by-line basis with similar items in the Company's financial statements.

(b) Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance method over the estimated useful life, using annual rates as follows:

Furniture and fixtures	20%
Exploration equipment	20%
Vehicles	20%
Leasehold improvements	20%
Computer equipment	30%

(c) Foreign currency translation

Foreign currency monetary assets and liabilities have been translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets, liabilities, revenues and expenses have been translated into Canadian dollars at the rate of exchange prevailing on the respective dates of the transactions. Realized and unrealized foreign exchange gains and losses are included in the results of operations.

(d) Potash concession

The Company is capitalizing all direct exploration and development expenditures until commercial production commences or the investment is abandoned, at which time the costs will either be amortized on a unit-of-production basis or fully charged to operations. Provision will be made, where considered necessary, for permanent declines in the value of the property.

3. Capital Assets

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	**$288,603**	**$136,881**	**$151,722**	$188,275
Exploration equipment	**63,861**	**27,156**	**36,705**	41,750
Vehicles	**49,088**	**27,765**	**21,323**	21,445
Leasehold improvements	**22,109**	**8,468**	**13,641**	17,819
Computer equipment	**53,703**	**26,322**	**27,381**	33,242
	$477,364	**$226,592**	**$250,772**	$302,531

4. Investment in Metro Resources Ltd.

During the year ended February 28, 1998, the Company purchased 1,265,500 common shares of Metro Resources Ltd. ("Metro"), a shareholder in Asia Pacific Potash Corporation, for cash consideration of $1,418,575. Subsequent to February 28, 1998, the Company acquired a controlling interest in Metro (see Note 16).

5. Investment in Potash Concession

The Company has a 62.5% interest in Asia Pacific Potash Corporation ("APPC"), a company which holds a potash concession situated in Udon Thani in northeastern Thailand. The remaining interests in APPC are held as to 27.5% by Metro Resources Company Ltd. ("Metro") and 10% by the Government of Thailand. Under the terms of the shareholders' agreement, certain strategic, operating and financing decisions require the approval of each shareholder.

The exploration and development expenditures of APPC are currently being funded as to 30.56% by Metro and 69.44% by the Company. The Government of Thailand is to reimburse its 10% share of such expenditures out of its share of the net profits of APPC, once commercial production has commenced.

During the year ended February 28, 1998 the Company's share of exploration and development expenditures amounted to $5,389,404 (1997 - $4,746,684; 1996 - $2,358,875).

The financial statements include the following assets, liabilities, revenues, expenditures, and cash flows of APPC which have been recorded on a proportionate consolidation basis:

	1998	1997
Current assets	$ 1,272,422	$ 1,692,994
Capital assets	180,203	225,098
Investment in potash concession	16,942,687	11,753,914
Investment in land	2,822,236	-
Current liabilities	(244,446)	(449,081)
Net equity	$ 20,973,102	$ 13,222,925
Revenues	$ 64,627	$ 25,181
Expenses	238,131	98,875
Net loss for the year	$ (173,504)	$ (73,694)
Cash flows from operating activities	$ (29,779)	$ (811,951)
Cash flows from investing activities	$ (8,211,640)	$ (4,746,684)

The recoverability of the carrying value of the Company's interest in the potash concession is dependent on: (i) the existence of economically recoverable reserves; (ii) the ability of the joint venturers to obtain the necessary financing to fund APPC's continued exploration and development activities; and (iii) ultimately, the ability of APPC to attain profitable operations.

6. Change in Accounting Policy

In 1997, the Company determined that it exercised joint control over its 62.5% investment in Asia Pacific Potash Corporation and as a result changed its accounting policy to record its interest on the proportionate consolidation basis. Previously the Company had consolidated this investment. This change was applied retroactively with the effect that net assets and non-controlling interest as at February 29, 1996 were each reduced by $1,758,286.

7. Share Capital

(a) During the year ended February 29, 1996, the Company passed a Special Resolution to increase its authorized share capital from 50,000,000 to 2,000,000,000 common shares without par value and during the year ended February 28, 1997 passed a Special Resolution to increase its authorized share capital to 2,000,000 common shares without par value.

7. ***Share Capital (con't)***

(b) Details of share capital since inception at January 26, 1986 to February 28,1998 are as follows:

	Number of Shares	Amount
Issued for cash on incorporation	1,350,000	$ 157,500
Balance at February 28, 1987	1,350,000	157,500
Issued for cash on private placement	140,000	70,000
Issued for cash on public offering	350,000	157,500
Issued for property	50,000	74,500
Issued pursuant to flow through agreements	279,999	254,301
Balance at February 29, 1988	2,169,999	713,801
Issued for cash on private placement	7,277,777	3,525,000
Issued for cash on exercise of warrants	5,500,000	2,200,000
Issued pursuant to flow through agreements	1	-
Balance at February 28, 1989	14,947,777	6,438,801
Issued for cash on private placement	5,000,000	1,500,000
Balance at February 28, 1990	19,947,777	7,938,801
Issued for cash on private placement	3,400,000	510,000
Balance at February 28, 1991 and 1992	23,347,777	8,448,801
Issued for cash on private placement	1,000,000	350,000
Issued for cash on exercise of options	430,000	86,000
Issued for cash on exercise of warrants	3,400,000	595,000
Balance at February 28, 1993	28,177,777	9,479,801
Issued for cash on private placement	4,750,000	6,600,000
Issued as finder's fee on private placement	50,000	25,000
Balance at February 28, 1994	32,977,777	16,104,801
Issued for cash on exercise of warrants	875,000	1,575,000
Balance at February 28, 1995	33,852,777	$ 17,679,801

	Number of Shares	Amount
Balance at February 28, 1995	33,852,777	$ 17,679,801
Issued for cash on exercise of options	2,234,200	1,030,045
Issued for cash on private placement	6,000,000	14,742,000
Issued for cash on exercise of warrants	3,235,000	9,016,500
Balance at February 29, 1996	45,321,977	42,468,346
Issued for cash on exercise of options	1,267,300	3,627,430
Issued as cash on exercise of warrants	1,640,000	6,396,000
Balance at February 28, 1997	48,229,277	52,491,776
Issued for cash on exercise of options	57,000	259,350
Balance at February 28, 1998	48,286,277	$ 52,751,126

(c) From time to time, the Company grants incentive stock options to officers, directors and employees to purchase common shares of the Company at market related prices.

Information regarding the Company's stock options for the three year period ended February 28, 1998 is as follows:

	Number of Common Shares	Exercise Price per Share
Outstanding at February 28, 1995	2,430,000	$ 0.15 - $ 2.60
Granted	2,645,000	3.00 - 8.25
Exercised	(2,234,200)	0.15 - 4.55
Outstanding at February 29, 1996	2,840,800	1.60 - 8.25
Granted	2,035,000	7.35 - 10.41
Cancelled	(885,000)	8.25 - 10.41
Exercised	(1,267,300)	1.60 - 7.00
Outstanding at February 28, 1997	2,723,500	2.00 - 7.75
Granted	2,275,000	2.35 - 3.15
Cancelled	(148,500)	3.15 - 7.75
Exercised	(57,000)	4.55
Outstanding at February 28, 1998	4,793,000	$2.00 - $ 7.35

7. Share Capital (con't)

(d) As at February 28, 1998, the Company's stock options outstanding were as follows:

Number of Common Shares	Exercise Price per Share	Expiry Date
580,000	$3.00	April 28, 1999
1,598,000	$3.15	February 26, 2002
2,260,000	$2.35	November 28, 2002
60,000	$2.00	March 24, 1999
150,000	$6.37	December 4, 1998
105,000	$3.15	October 27, 2000
25,000	$7.35	February 28, 2002
15,000	$3.15	July 18, 2002
4,793,000		

(e) During the year ended February 28, 1997, the Company issued 1,000,000 share warrants exercisable at $8.00 per share until September 7, 1997 pursuant to an agreement with a third party to provide the Company with financial advisory services. These warrants expired without being exercised.

(f) Shareholder rights plan

On July 17, 1996, the Company adopted a shareholder rights plan (the "Plan") and issued one common share purchase right for each common share outstanding. Generally, if any person or group makes a take-over bid other than a bid permitted under the Plan (a "Permitted Bid") or acquires 20% or more of the Company's outstanding common shares without complying with the Plan, the Plan will entitle the holders of share purchase rights to purchase common shares of the Company at 50% of the prevailing market price. A take-over bid for the Company can avoid the dilutive effects of the share purchase rights and therefore become a Permitted Bid if it complies with certain specified provisions in the Plan.

8. Income Taxes

The Company's actual income tax (expense) recovery differs from the income tax (expense) recovery which would result from applying the statutory tax rate to loss before income taxes primarily as a result of not recording the potential tax recovery and other non-taxable items. The current tax expense arises as a result of federal and provincial capital taxes.

The Company has non-capital losses of approximately $3,500,000 which may be used to offset future taxable income in Canada and which will commence to expire in the year 2003. In addition, the Company has net capital losses in Canada of approximately $960,000 which may be used to offset future taxable capital gains.

9. Related Party Transactions

Related party transactions not disclosed elsewhere in these financial statements include:

(a) consulting fees of $382,323 (1997 - $288,948; 1996 - $249,703) paid to companies controlled by directors of which $121,693 (1997 - $133,439; 1996 - $130,000) has been capitalized as part of the investment in potash concession;

(b) accounts receivable includes $176,355 (1997 - $541,720; 1996 - Nil) owing from a shareholder of APPC.

10. Commitments

The Company has the following future minimum payments in respect of lease commitments for office space:

1999	$ 47,903
2000	47,903
2001 and thereafter	23,951

11. Contingency

During 1993, the Company acquired from Crew Capital Corporation, a private company related by certain directors in common, a right to earn a 75% interest in APPC for $69,510, representing a reimbursement of development costs incurred to date, and a royalty of 1.5% on the Company's initial share (75%) of potash sales once commercial production has begun. Effective December 1, 1994, the Company acquired control of APPC as it incurred expenditures in satisfaction of the requirements for earning the 75% interest. Accordingly, at such time as commercial production commences, this royalty will be payable by the Company.

12. Segmented Information

The Company's operations consist of the exploration and development of the Udon Thani potash concession in northeastern Thailand. Details of revenues, expenses and identifiable assets in Thailand are summarized in Note 5.

13. Dividend in Kind

During the year ended February 28, 1994, the Company paid a dividend in kind to each shareholder of the Company representing one share of Canadian Crew Energy Corporation ("KNC") at a book value of $0.705 per share for each fifteen shares of the Company held on June 15, 1993. A total of 1,856,944 shares were distributed. This transaction gave rise to a taxable gain based on the market value of KNC shares of $3,353,187 and resulted in a tax liability of $866,428 after taking into account all of the Company's remaining tax loss carry-forwards at that date. The dividend is shown inclusive of the tax liability.

14. Fair Value of Financial Instruments

The fair values of the Company's financial instruments, with the exception of the investment in Metro Resources Ltd. described in Note 4, at February 28, 1998 and 1997 are estimated to approximate carrying values due to the immediate or short-term maturity of these financial instruments.

15. Reconciliation Between Canadian and United States Generally Accepted Accounting Principles

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which, in the case of the Company, differ in some respects from U.S. GAAP. The material differences between Canadian and U.S. GAAP are summarized below:

(a) Investment in Metro

The Company considers its investment in Metro Resources Ltd. ("Metro") to be an "available-for-sale" investment in accordance with the classification criteria in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* As a result, the unrealized loss in the amount of $26,525 on this investment would be recorded as a reduction in the carrying value of the asset and as a separate component of shareholders' equity.

(b) Investment in APPC

US GAAP requires investments in incorporated joint ventures to be accounted for under the equity method, while under Canadian GAAP, the accounts of incorporated investees subject to joint control are proportionately consolidated. However, under rules promulgated by the Securities and Exchange Commission, a foreign registrant may, subject to the provision of additional information, continue to follow proportionate consolidation for purposes of registration and other filings, not withstanding the departure from U.S. GAAP. Consequently the balance sheets have not been adjusted to restate the accounting under U.S. GAAP and additional information concerning the Company's investment in APPC is presented in Note 5.

(c) Dividend in kind

Under U.S. GAAP, dividends in kind, consisting of investments previously accounted for using the equity method, are recorded at book value and any related tax expense is included in operations. Under Canadian GAAP, dividends in kind are recorded at book value plus any related tax liabilities.

15. (c) Dividend in kind (con't)

As a result of the foregoing, the dividend in kind in the year ended February 28, 1994 would have been decreased under U.S. GAAP by $866,428. However, there would have been no change in the deficit at the end of that year.

(d) Statement of cash fows

Under U.S. GAAP, presentation of a statement of cash flows is required, which reflects only cash transactions affecting financing and investing activities. Under Canadian GAAP, disclosure of noncash financing and investing activities is also required in the statement of changes in financial position.

(e) Income taxes

Under U.S. GAAP, the Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes,* ("SFAS No. 109") requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance against the net deferred tax debits may be provided for due to uncertainty of realization. The Company has determined that the adoption of SFAS No. 109 does not result in a material effect on the net deferred income tax position of the Company as any deferred tax assets initially recognized are fully offset by a valuation allowance as at Febraury 28, 1998 and 1997.

(f) Loss per share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 128, *Earnings per Share,* which is effective for years ending after December 15, 1997. As a consequence, the presentation of the primary earnings or loss per share in accordance with U.S. GAAP has been replaced with the presentation of the basic earnings or loss per share, which excludes the dilutive effect, if any, of common stock equivalents previously included in determining the primary earnings or loss per share. The calculation of the fully diluted earnings or loss per share has not changed. The adoption of SFAS No. 128 by the Company has not resulted in a basic loss per share that is different from the presently disclosed loss per share in accordance with Canadian GAAP. Furthermore, the fully diluted loss per share under SFAS No. 128, which assumes that the outstanding stock options and warrants had been exercised (using the "treasury stock method") at the beginning of the year or the date of issue, as applicable, is not different from the presently disclosed loss per share in accordance with Canadian GAAP.

(g) Stock-based compensation

The Company has adopted, for U.S. GAAP purposes, the accounting for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees.* Accordingly, since stock options are granted at the quoted market value of the Company's common shares at the date of the grant, there is no compensation cost to be recognized by the Company.

SFAS No. 123, *Accounting for Stock-Based Compensation,* issued in October 1995, requires the use of a fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the warrants granted and is recognized over the exercise period. Had compensation cost for the Company's warrants issued to a party to provide financial advisory services (Note 7) been recognized on a basis consistent with the methodology prescribed under SFAS No. 123, the Company's net loss and special warrants would have both increased by $714,625 (1997 - $357,312; 1996 - $Nil). During the year ended February 28, 1998 the warrants expired without being exercised resulting in a reclassification of the balance of special warrants to contributed surplus.

15. (g) Stock-based compensation (con't)

The fair value of the warrants granted in 1997 was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions.

Expected life of the warrants	1.5 years
Volatility	19%
Risk free interest rate	5.4%
Dividend yield	Nil

This model requires highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect calculated values. Accordingly, management believes that this model does not necessarily provide a single reliable single measure of the fair value of the Company's warrants granted.

(h) Impact of new US. reporting standards

In June 1997, FASB issued SFAS No. 130, *Reporting Comprehensive Income,* ("SFAS No. 130") which is required to be adopted for fiscal years beginning on or after December 15, 1997. SFAS No. 130 establishes standards for the reporting of comprehensive income and its components in financial statements. Reclassification of financial statements for earlier periods presented is required. The impact of SFAS No. 130 on the Company's financial statements would result in the inclusion of the unrealized loss on the Company's investment in Metro in the amount of $26,525, in the determination of comprehensive loss for the year.

(i) Segmented information

In June 1997, the Financial Accounting Standards Board issued Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information* (SFAS 130), which is effective for fiscal years beginning on or after December 15, 1997. The Company has not yet determined the effect, if any, of the adoption of this statement on its present disclosures of segmented information.

The differences between Canadian and U.S. GAAP and their effect on the Company's consolidated financial instruments are summarized below:

		Cumulative from inception to February 28		Years ended February 28		Year ended February 29
		1998		1998	1997	1996
Statements of Loss						
Net loss						
Canadian GAAP		$(14,228,799)		$ (3,286,306)	$ (1,140,198)	$ (2,176,293)
Consulting expense	(g)	(1,071,937)	65	(714,625)	(357,312)	-
Adjustment to income tax expense Olier	(c)	866,428		-	-	-
Net loss U.S. GAAP		$(14,434,308)		$ (4,000,931)	$ (1,497,510)	$ (2,176,293)
Loss per share U.S. GAAP				$ (0.08)	$ (0.03)	$ (0.05)
Statements of Cash Flows						
Operating activities						
Change in non-cash operating working capital item		$ (866,428)		$ -	$ -	$ -
Financing activities						
Issue of share capital		(99,500)		-	-	-
Finder's fee		25,000		-	-	-
Dividend paid		2,174,801		-	-	-
Investing activities						
Expenditures for mineral claims		74,500		-	-	-
Disposal of investment through dividend in kind		(1,308,373)		-	-	-

15. (i) Segmented information (con't)

		1998	1997
Assets			
Total assets, Canadian GAAP		$ 36,947,745	$ 40,552,013
Reduction due to unrealized loss on investment in Metro	(a)	(26,525)	-
Total assets, US GAAP		$ 36,921,220	$ 40,552,013
Shareholders' Equity			
Shareholders' equity, Canadian GAAP		$ 36,347,526	$ 39,374,482
Unrealized loss on investment in Metro FAS 115	(a)	19 (26,525)	-
Special warrants FAS 123	(g)	~~1,071,937~~	~~357,312~~
Reclass to contributed surplus on expiry of special warrants	(g)	~~(1,071,937)~~	-
Contributed surplus	(g)	~~1,071,937~~	-
Recognition of expense related to granting of warrants for consulting services as an increase in deficit	(g)	~~(1,071,937)~~	~~(357,312)~~
Shareholders' equity, US GAAP		$ 36,321,001	$ 39,374,482

16. Subsequent Events

Subsequent to February 28, 1998, the following transactions occurred:

(a) The Company purchased 45,492,500 shares of Metro Resources Ltd. ("Metro") representing an 88.6% controlling interest, for cash consideration of $4,700,000 and a promissory note in the amount of $40,792,500. Metro holds a 27.5% interest in Asia Pacific Potash Corp. Ltd. ("APPC"). The transaction will have the effect of increasing the Company's share of APPC from 62.5% to 90%. This transaction will be accounted for using the purchase method of accounting.

The promissory note is due August 14, 1998, bears interest at 0% to that date, and 15% thereafter. Should the promissory note not be repaid by January 1, 1999, the interest rate increases to 20% or the vendors may elect to take back 40,792,500 shares of Metro in exchange for cancellation of the note.

(b) On June 22, 1998 the Company announced that it had concluded negotiations with Olympus Capital Holdings Asia to invest $48,000,000 into the Company. The investment may either be in the form of a US dollar denominated debenture convertible into common stock of the Company at an exercise price of C$4.00 per share or a private placement of 12,000,000 common shares at C$4.00 per share. The debentures will have a two year maturity and a 10% interest rate, plus a premium, in certain circumstances. The investment is scheduled to close on or before August 6, 1998 and is subject to final due diligence and regulatory approvals.

(c) Also on June 22, 1998 the Company announced the signing of a memorandum of understanding with Norsk Hydro Asia Pte. Ltd. ("Hydro") for the purpose of forming a strategic alliance for the financing and development of the Udon Thani potash concession in Thailand. Under the terms of the alliance, Hydro will become an equity participant in APPC and enter into purchase and marketing agreements. The Company and Hydro will jointly develop the financing, management and operational aspects of the concessions.

Dr. Gerald D. Wright
Executive Chairman and Director

Gerald Wright, is a Professional Engineer with experience in water resources and mining projects in Europe, Asia and North America. He holds a Doctorate in Engineering from Queen's University in Belfast and is presently a principal of the Crew Group of Companies, holding directorships in the public and private corporations which comprise the Group.

Mr. John M. Darch
Secretary and Director

John Darch has an extensive background in commercial banking and financial management in both in the United Kingdom and Canada and has specialized in mining finance. He is presently a principal of the Crew Group of Companies, holding directorships in the public and private corporations which comprise the Group.

Mr. Robert G. Connochie
President, CEO and Director

Robert Connochie has over 25 years experience in the international mining industry during which he participated in the development of several major projects. His most recent positions have included Chairmanof Canpotex, President of Potash Company of America and Vice President, Corporate Development of Rio Algom Limited.

ASIA PACIFIC
RESOURCES LTD.

Mr. Peter D. Barnes
Chief Financial Officer and Director

Peter Barnes is a Chartered Accountant with over 15 years experience. Prior to 1992, he was with an international accounting firm in both England and Canada. Mr. Barnes then spent four years in a senior financial role with a multinational public company based in Vancouver, before joining the Crew Group of Companies in 1996.

Mr. Robert B. Anderson
Director

Robert Anderson graduated from the university of British Columbia in 1970, as an Economic Geologist and Professional Geoscientist. Mr. Anderson has almost 30 years experience of resource evaluation of precious and base metal projects in Western Canada, Alaska and southeast Asia, as well as commodities such as coal and potash. Mr. Anderson serves as Project Director in Thailand.

Mr. Wayne H. Fallis
Director

Wayne Fallis has considerable experience in international shipping and trading. He is currently President and CEO of Global Enterprises International, an international shipping and trade company active in Europe and the Pacific Rim. He is also a member of the boards of private and public companies involved in the mining and fishing industries.

Mr. David Williamson
Director

David Williamson is a Mining Engineer who began his career in Sierra Leone and Malaysia, where he has managed two of the world's largest tin mines. Subsequently he was Executive Director of the mining and metals research team at Shearson Lehman Hutton in London. In 1989 he established David Williamson Associates, which specializes in mining research, investor relations and fund raising for mining companies.

Head Office

Suite 615, 800 West Pender Street
Vancouver, BC, Canada V6C 2V6

Telephone: (604) 681-8003
Toll Free: 1-800-444-9284
Facsimile: (604) 662-3180

Website: www.crewgroup.com
E-mail: info@crewgroup.com

Overseas Office

Asia Pacific Potash Corporation (APPC)
Suite 2002, 990 Rama IV Road
Silom, Bangrak
Bangkok 10500, Thailand

Telephone: 66 2 636 1600
Facsimile: 66 2 636 1599

Asia Pacific Potash Corporation (APPC)
34/5 Phosri Rd., Tambon Bon Luem
Muang District, Udon Thani
41000 Thailand

Telephone: 66 42 347 858
Facsimile: 66 42 347 859

Solicitors

DuMoulin Black
Barristers and Solicitors
10th Floor, 595 Howe Street
Vancouver, BC, Canada V6C 2T5

Auditors

Deloitte & Touche
Suite 2000, 1055 Dunsmuir Street
Vancouver, BC, Canada V7X 1P4

Bankers

Canadian Imperial Bank of Commerce
400 Burrard Street, Commerce Court
Vancouver, BC, Canada V6C 3A6

Stock Exchanges

Toronto Stock Exchange (APQ.T)
Vancouver, Stock Exchange (APQ.V)
NASDAQ (APG.CF)
Frankfurt Stock Exchange (APQ.F)
Stuttgart Stock Exchange (APQ.SG)

Share Registry

Pacific Corporate Trust
Suite 830, 625 Howe Street
Vancouver, BC, Canada V6B 3B8

Asia Pacific Resources Ltd., is a member of the Crew Group of Companies.
Other companies in the group are:

Botswana Diamondfields Inc., is a diversified junior diamond mining company active in Angola and Botswana. A strong treasury and debt-free position make it possible to pursue vigorously other exploration and undervalued production opportunities

Crew Development Corporation, (formerly known as Canadian Crew Energy Corporation) was restructured as a public, internationally listed, development and operating company to identify, acquire and develop resource projects worldwide.

Metro Resources Ltd., holds a 27.5% interest in the Udon Thani Potash Concession.